State of South Carolina



Office of the State Auditor

THOMAS L. WAGNER, JR., CPA STATE AUDITOR

1401 MAIN STREET, SUITE 1200 COLUMBIA, S.C. 29201

(803) 253-4160 FAX (803) 343-0723

June 29, 2001

Mr. Richard C. Cooke Cooke Management Company, Inc. Post Office Box 808 Lake View. South Carolina 29563-0808

Re:

AC# 3-KGS-J8 – Kingstree Nursing Facility, Inc.

Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

TLWir/kss

Ms. Brenda L. Hyleman

Mr. Jeff Saxon Mr. Robert M. Kerr

KINGSTREE NURSING FACILITY, INC. KINGSTREE, SOUTH CAROLINA

CONTRACT PERIOD BEGINNING OCTOBER 1, 1999 AC# 3-KGS-J8

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 6, 2001

Department of Health and Human Services State of South Carolina Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Kingstree Nursing Facility, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

- 1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid Program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Kingstree Nursing Facility, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
- 2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Kingstree Nursing Facility, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services State of South Carolina April 6, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Computation of Rate Change For the Contract Period Beginning October 1, 1999 AC# 3-KGS-J8

Interim Reimbursement Rate (1)	\$98.58
Adjusted Reimbursement Rate	90.74
Decrease in Reimbursement Rate	\$_7.84

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000.

KINGSTREE NURSING FACILITY, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 1999
AC# 3-KGS-J8

Costs Subject to Standards:	<u>Incentives</u>	Allowable Cost	Cost Standard	Computed Rate
General Services		\$42.38	\$47.61	
Dietary		8.85	10.24	
Laundry/Housekeeping/Maint.		8.25	8.89	
Subtotal	\$ <u>4.67</u>	59.48	66.74	\$59.48
Administration & Med. Rec.	\$ <u>3.35</u>	8.04	11.39	8.04
Subtotal		67.52	\$ <u>78.13</u>	67.52
Costs Not Subject to Standards:				
Utilities Special Services Medical Supplies & Oxygen Taxes and Insurance Legal Fees		2.29 2.11 6.97 .88		2.29 2.11 6.97 .88
TOTAL		\$ <u>79.77</u>		79.77
Inflation Factor (3.00%)				2.39
Cost of Capital			5.68	
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.79
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.71)
CNA Add-On				.75
Nurse Aide Staffing Add-On				40
ADJUSTED REIMBURSEMENT RATE				\$ <u>90.74</u>

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

Expenses	Totals (From Schedule SC 13) as Adjusted by DHHS	Adjustm Debit	ents Credit	Adjusted Totals
General Services	\$1,115,389	\$ 4,880 (12)	\$ 5,906 (7) 44 (7) 3,310 (8) 5,504 (9) 395 (9) 47,920 (10) 3,439 (10) 926 (11)	\$1,052,825
Dietary	250 , 486	-	8,184 (7) 590 (9) 5,141 (10) 16,687 (11)	219,884
Laundry	9,803	-	-	9,803
Housekeeping	131,357	-	249 (7) 582 (9) 5,068 (10)	125,458
Maintenance	83,187	-	11,360 (2) 15 (7) 216 (9) 1,878 (10) 4 (12)	69,714
Administration & Medical Records	215,075	3,655 (2) 39 (10)	6,130 (3) 211 (7) 3,333 (7) 6,758 (10) 2,462 (12)	199 , 875
Utilities	64,947	-	5,865 (4) 2 (12) 2,094 (13)	56,986
Special Services	52,304	-	1 (14)	52,303

KINGSTREE NURSING FACILITY, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

	Totals (From Schedule SC 13) as	Adius	tments	Adjusted
<u>Expenses</u>	Adjusted by DHHS	<u>Debit</u>	Credit	
Medical Supplies & Oxygen	207,215	-	4,810 6,900 22,369	(7)
Taxes & Insurance	40,137	-	7,019 7,313 2,147 1,826	(10) (11)
Legal Fees	-	-	-	-
Cost of Capital	141,997		677	(1) 141,091 (12) (15)
Subtotal	2,311,897	8,574	197,564	2,122,907
Ancillary	41,250	-	-	41,250
Non-Allowable	264,034	104 (1) 7,234 (2) 5,989 (3) 4,739 (4) 7,019 (5) 4,810 (6) 3,310 (8) 7,287 (9) 77,478 (10) 19,760 (11) 91 (12) 2,094 (13) 22,370 (14) 125 (15)		426,444
Total Operating Expense	s \$ <u>2,617,181</u>	\$ <u>170,984</u>	\$ <u>197,564</u>	\$ <u>2,590,601</u>
Total Patient Days	<u>24,845</u>			<u>24,845</u>

70

Total Beds

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

ADJUSTMENT <u>NUMBER</u>	ACCOUNT TITLE	DEBIT	CREDIT
1	Accumulated Depreciation Nonallowable Other Equity Cost of Capital	\$ 105 104	\$ 105 104
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings Administration Nonallowable Maintenance	471 3,655 7,234	11,360
	To reclassify expense to the proper cost center, disallow expense due to lack of documentation and properly charge expense applicable to the prior period HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
3	Retained Earnings Nonallowable Administration	141 5,989	6,130
	To disallow expense due to lack of documentation and properly charge expense applicable to the prior period HIM-15-1, Sections 2302.1 and 2304		
4	Retained Earnings Nonallowable Utilities	1,126 4,739	5,865
	To adjust utility expense HIM-15-1, Sections 2106, 2302.1 and 2304		
5	Nonallowable Taxes and Insurance	7,019	7,019
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

ADJUSTMENT <u>NUMBER</u>	ACCOUNT TITLE	DEBIT	CREDIT
6	Nonallowable Medical Supplies	4,810	4,810
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
7	Retained Earnings Nursing Restorative Dietary Housekeeping Maintenance Administration Medical Records Medical Supplies	24,842	5,906 44 8,184 249 15 211 3,333 6,900
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
8	Nonallowable Restorative To disallow cable TV expense	3,310	3,310
9	Nonallowable Nursing Restorative Dietary Housekeeping Maintenance	7,287	5,504 395 590 582 216
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
10	Nonallowable Medical Records Nursing Restorative Dietary Housekeeping Maintenance Administration Taxes and Insurance	77,478 39	47,920 3,439 5,141 5,068 1,878 6,758 7,313
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Nonallowable Nursing Dietary Taxes and Insurance	19,760	926 16,687 2,147
	To remove cost not related to patient care HIM-15-1, Section 2102.3		
12	Nonallowable Nursing Maintenance Administration Utilities Taxes and Insurance Cost of Capital	91 4,880	4 2,462 2 1,826 677
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
13	Nonallowable Utilities	2,094	2,094
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2328		

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-KGS-J8

ADJUSTMENT <u>NUMBER</u>	ACCOUNT TITLE	DEBIT	CREDIT
14	Nonallowable Medical Supplies Special Services	22,370	22 , 369
	To remove special (ancillary) services reimbursed by Medicare and adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
15	Nonallowable Cost of Capital	125	125
	To adjust capital return State Plan, Attachment 4.19D		
	Total Adjustments	\$ <u>197,669</u>	\$ <u>197,669</u>
	Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.		

KINGSTREE NURSING FACILITY, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998 AC# 3-KGS-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	2.2493
Deemed Asset Value (Per Bed)	35,130
Number of Beds	70
Deemed Asset Value	2,459,100
Improvements Since 1981	70,609
Accumulated Depreciation at 9/30/98	(397,228)
Deemed Depreciated Value	2,132,481
Market Rate of Return	0.063
Total Annual Return	134,346
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	
Allowable Annual Return	134,346
Depreciation Expense	6 , 745
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	
Allowable Cost of Capital Expense	141,091
Total Patient Days (Actual)	24,845
Cost of Capital Per Diem	\$ <u>5.68</u>

KINGSTREE NURSING FACILITY, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998 AC# 3-KGS-J8

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.00
Adjustment for Maximum Increase	3.99
Maximum Cost of Capital Per Diem	\$ <u>5.99</u>
Reimbursable Cost of Capital Per Diem	\$5.68
Cost of Capital Per Diem	5.68
Cost of Capital Per Diem Limitation	\$

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

TRANSACTION CLASSIFICATION

The provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

VENDING MACHINE AND MEAL SALES

Income received from vending machines and meal sales were not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document the income derived from vending machine and meal sales, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received be deposited timely and intact.

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